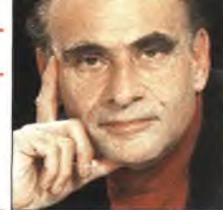


The bitter Nova-Polysar slugfest



By Peter C. Newman

Seldom has there been a corporate vendetta more bitter than the takeover contest between the Toronto-oriented Establishment board of Polysar Energy & Chemical Corp. and Bob Blair's rampaging Nova Corp. of Calgary. The battle escalated when Bernard Isautier, Polysar's French-born chief executive officer, attempted to have Ottawa lift its 25-per-cent restriction on outside ownership, to ease the future sale of the once-government-dominated company—although not to the Alberta company, which already owns at least another quarter of its stock. The next confrontation between the two factions was to take place at the company's annual meeting on May 25, when Blair was expected to push his strong case for representation on Polysar's 17-member board. But last week Nova apparently pulled back from the battle when Blair said that he would not increase a \$22.50-a-share offer that Polysar's board had already rejected.

The fight started in October, 1987, when Nova acquired its first 9.7-per-cent stake in Polysar. Three months later it tried to raise its holdings to 30.9 per cent through a \$14-per-share offering. The Polysar board reacted by restructuring the company in a way that would allow existing stockholders to collect \$608 million in cash and extra securities (the equivalent of about \$9.50 per share) as a discouragement to the western raiders. (The board at the same time approved for Isautier a golden parachute so generous that his salary would continue for an extra three years beyond any departure date and he would be allowed to exercise all of his existing stock options, worth at least \$8 million, if he "is no longer satisfied with his working environment.")

Blair eventually raised his offer to \$22.50, but was turned down flat by the Polysar board, which includes such influential moneymen as Bernard Lamarre, the Montreal engineering-firm proprietor; Bill Dimma, Kendall Cork, Pat Keenan and John Bruk, leading luminaries associated with the Bronfman-owned Trilon organization; Pierre Côté, chairman of Celanese Canada; Don Campbell, chairman of Maclean Hunter; Don Loughheed (the former Alberta premier's brother) and Bud McCaig (who runs Trimac) from Calgary; and Bill Mingo, the megalawyer from Halifax. Also on the Polysar board is Bill Wilder, the veteran corporate director who tan-

gled with Blair once before when they were both trying to build a pipeline down the Mackenzie River Valley.

The case against allowing Blair on the Polysar board was put to me this way by Isautier: "We're competing directly with Nova in our two main businesses, energy and petrochemicals," he said, "so I think it would be absolutely improper for a rival to be privy to all our strategic decisions. I don't want to engage in name-calling, but I believe we have



Isautier: a generous golden parachute

superior management talent and few companies—particularly not Nova—can boast of our track record and the value that has been created for shareholders."

At the May 25 annual meeting, Isautier had intended to make that case even more strongly. "They would have a very hard case to put before shareholders," he predicted. "Nova's management record is not particularly brilliant, and they've demonstrated that they want to acquire this corporation at a minimum price. I take the position that there is no

other company of significant size that has delivered rewards to its shareholders comparable to ours; we have increased the market value of our shares from \$5 at the end of 1986 to more than four times that amount now. If we play by the rules and if the votes are based on competence, we should win. If some other games are played, I don't know what will happen." He pointed out that Polysar expects another great year in 1988, including "small but strategically important" acquisitions.

Once an unwieldy collection of incompatible assets, the Canada Development Corp. (as Polysar was known before Isautier took over) suffered from lackadaisical direction and the company ran up a debt load, which at \$4 billion was second only to Dome's. At one point every division except tiny Life Sciences Inc. was showing an operating loss, and millions of dollars in bad investments had to be written off. But under Isautier, dubbed by *The Financial Post* last month as "the most bankable senior executive in Canada," the company has made a dramatic turnaround. Total revenues rose by \$264 million in 1987 to almost \$2.9 billion, and the bottom line jumped to a profit of \$228 million from a loss of \$297 million in 1986.

Having sold off assets worth \$1.6 billion, Polysar is now limited to operating in the petrochemical and energy fields, which includes its ownership of 17 per cent of the world's aboveground sulphur inventories. Its oil and gas subsidiary, Canterra Energy Ltd., still has heavy debts, but has managed to increase its discovered oil reserves by 50 per cent since 1983. Drilling is currently being carried out in the Rainbow Lake, Shekille and Fire areas of northern Alberta, parts of the Peace River area and in the Caroline and Garrington areas of west-central Alberta.

"Our objective," said Isautier, "is to maximize the value of our shares, and Nova has always been too cheap in its offers. I don't like to give a price at which we would accept a bid, because that would reflect the conditions of the market, so what may be true today may not be true two weeks from now. But at the moment our shares are trading on fundamental value, with no built-in premiums for takeovers. We are not digging in to resist a sale at all costs, and if somebody else comes up with an offer that would be attractive to Polysar's board of directors we would certainly recommend it to our shareholders."